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Butler, David

From: BURGESS, KENNETH CHAD [chad.burgess@scana.com]  
Sent: Thursday, November 18, 2010 11:18 AM  
To: Butler, David  
Cc: Nelson, Jeff; \*Advisory; \*Attorneys  
Subject: RE: Docket No. 2010-365-E - Depreciation Expense

COPY  
Posted: ted  
Dept: SA  
Date: 11/24/10  
Time: 4:45

Dear David:

Thank you for your email and the insightful question. Below is SCE&G's response.

As stated in the Company's petition, the Wateree Station Scrubber began operating in a test mode on April 26, 2010, and was declared in-service for commercial operation on October 12, 2010. SCE&G's investment in the Wateree Station Scrubber is currently included within the Construction Work in Progress ("CWIP") portion of the Company's rate base. As a result, the Company is allowed an opportunity to earn a return on this investment but is not recovering any of the depreciation expense of this asset, even though it is being used to provide utility service to customers. Typically, the Company is allowed to recover the cost of assets through depreciation expense. Since the Company is not recovering the depreciation expense of the Scrubber, its cash flow is negatively impacted to the extent of the deferred depreciation expense, which in turn places upward pressure on the Company's short-term borrowing requirements. As a result, the Company is requesting to charge carrying cost on the deferred depreciation expense to offset the cost of the resulting incremental short term borrowing requirement.

If you have any questions, please advise.

Chad

-----Original Message-----

From: Butler, David [mailto:David.Butler@psc.sc.gov]  
Sent: Friday, November 05, 2010 3:08 PM  
To: BURGESS, KENNETH CHAD  
Cc: Nelson, Jeff; \*Advisory; \*Attorneys  
Subject: Docket No. 2010-365-E - Depreciation Expense

Chad:

The Commission is in receipt of your Petition for an Accounting Order, filed under the above-captioned Docket Number. In analyzing the request, a member of our Commission Staff came up with the following request for an explanation:

In Docket No. 2009-489-E it appears that the Company's rate base included \$266,228,046 in Construction Work in Progress (CWIP) associated with the Wateree Scrubber that the Company proposes to begin depreciating. The \$266 Million amount was included in rate base as CWIP as evidenced by the ORS Audit Report (Audit Exhibit SGS-2, page 4 of 5, ORS Adjustment Number 66) and the direct testimony of ORS Witness Sullivan, page 3 of 5 at line 18. The ORS did not transfer such CWIP to Plant in Service but did allow it to remain in rate base. The ORS did not allow depreciation expenses or O&M expenses associated with the Scrubber to be recovered in the case. Please explain why it is appropriate to allow carrying costs on the depreciation expense portion of the scrubber since the majority of its costs are earning a rate of return by inclusion in rate base in Docket No. 2009-489-E.

We would greatly appreciate it if you and/or your Staff could help us with an explanation on this issue.

Thanks,

David Butler  
Senior Counsel  
Public Service Commission of South Carolina